

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 420

SPONSOR: Pruitt

SUBJECT: State Retirement System

DATE: March 27, 2003 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Withdrawn</u>
2.	<u>McVaney</u>	<u>Coburn</u>	<u>AP</u>	<u>Favorable/CS</u>
3.	<u>Kassack</u>	<u>Kassack</u>	<u>RC</u>	<u>Withdrawn</u>
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

The Proposed Committee Substitute for Senate Bill 420 (PCS/SB 420) establishes the retirement contribution rates paid by employers participating in the Florida Retirement System. For FY 2003-04, the contribution rates are set at approximately \$900 million below the normal costs of the Florida Retirement System. The state actuary is directed to recognize and use excess assets of the Florida Retirement System Trust Fund to offset the difference between the statutory contribution rates and the normal costs. Effective July 1, 2004, the contribution rates are established to meet the normal costs of the retirement system.

The bill reduces the contribution rate paid by employers for the administrative and educational expenses incurred by the State Board of Administration. The rate is reduced from 0.15 percent of payroll to 0.08 percent of payroll.

This bill substantially amends ss. 121.71 and 121.74, Florida Statutes.

II. Present Situation:

Chapter 121, Florida Statutes, creates the Florida Retirement System (FRS) for the purpose of providing retirement benefits to employees and officers of the state, community colleges, counties, school districts, and certain cities and special districts. To fund these retirement benefits, each participating employer pays a contribution to the FRS Trust Fund based on a statutorily established percentage of each employee's gross monthly income.

The table below shows the contribution rates effective July 1, 2002, and July 1, 2003, for each class or subclass as established by the 2002 Legislature.

<u>Class</u>	Current	Current
	07-01-02	07-01-03
Regular Class	4.50%	9.87%
Special Risk Class	14.75%	22.89%
Special Risk Admin. Support Class	5.30%	12.58%
Elected Officers' Class – Judicial Subclass	14.60%	20.54%
Elected Officers' Class – Leg.-Atty.-Cab. Sub	8.15%	15.43%
Elected Officers' Class – County	10.60%	17.52%
Senior Management Service Class	4.80%	11.68%
Deferred Retirement Option Program (DROP)	8.00%	11.56%

These contributions are paid into the Florida Retirement System Contributions Clearing Trust Fund. Amounts necessary to pay the benefits due under the defined contribution program are transferred into the participants' accounts (for retirement benefits) and into the disability account of the Florida Retirement System Trust Fund (for disability benefits). The remainder of these contributions is transferred to the Florida Retirement System Trust Fund to pay for the benefits due under the defined benefit program.

Based on the 2002 Actuarial Valuation of the Florida Retirement System, the System has an actuarial surplus of \$12.9 billion as of June 30, 2002. Actuarial liabilities increased by \$5.5 billion during between July 1, 2001, and July 1, 2002, while the actuarial value increased only \$3.9 billion during the same period.

In addition to the contribution rates paid by employers for retirement and disability benefits, s. 121.74, F.S., imposes an assessment of 0.15% of payroll to cover the administrative and educational expenses incurred by the State Board of Administration. This assessment generates approximately \$32 million in FY 2002-03 to offset \$26.6 million of anticipated expenses for the year.

III. Effect of Proposed Changes:

This legislation establishes the retirement contribution rates for each class and subclass of the Florida Retirement System (FRS) defined benefit program and defined contribution program. For FY 2003-04, the contribution rates are reduced below normal costs to approximately the same contribution level paid during FY 2001-2002. Beginning July 1, 2004, the rates are set at the respective normal costs as determined by the FRS's consulting actuary in the 2002 Actuarial Valuation. The Legislature may change these rates in subsequent legislation depending upon the existence of a trust fund surplus.

The table below shows by class and subclass the contribution rates currently scheduled to take effect July 1, 2003, and the rates established under this bill.

<u>Class</u>	Current	Proposed	Proposed
	07-01-03	07-01-03	07-01-04
Regular Class	9.87%	6.18%	9.96%
Special Risk Class	22.89%	17.32%	22.15%

Special Risk Admin. Support Class	12.58%	12.58%	12.58%
Elected Officers Class – Judicial Subclass	20.54%	17.44%	20.70%
Elected Officers’ Class – Leg.-Atty.-Cab. Su	15.43%	11.28%	15.48%
Elected Officers’ Class – County	17.52%	14.02%	17.81%
Senior Management Service Class	11.68%	8.16%	11.59%
Deferred Retirement Option Program (DROP)	11.56%	8.00%	11.56%

This bill reduces the assessment used to pay the administrative and educational expenses incurred by the State Board of Administration. The rate is reduced from 0.15 percent of payroll to 0.08 percent of payroll, effective July 1, 2003. This new rate will generate roughly \$17.3 million annually to offset \$17.2 million of anticipated expenses.

This bill includes a determination and declaration that this act fulfills an important state interest. The bill is effective July 1, 2003.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Article VII, Section 18, of the Florida Constitution, excuses local governments from complying with state mandates which impose additional fiscal burdens. Section (a) provides, “No county or municipality shall be bound by any general law requiring such county or municipality to spend funds or to take an action requiring the expenditure of funds,” unless certain requirements are met. However, several exemptions and exceptions exist.

This bill requires cities and counties participating in the Florida Retirement System to expend additional funds because it will require them to make higher retirement contributions in FY 2004-05 and thereafter (absent other legislative action). However, subsection (a) contains an exception for laws which fulfill an important state interest and which apply to all persons similarly situated. This bill provides a determination and declaration of important state interest and treats all similarly situated FRS employers in the same manner. Thus, this bill meets the exception requirements of Art. VII, Section 18, of the Florida Constitution.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

With the enactment of this legislation, the revenues expected to flow into the Florida Retirement System in FY 2003-04 will be reduced by approximately \$900 million. While the legislation does not expend additional funds from the Florida Retirement System Trust Fund, the bill does direct the state actuary to “recognize” a portion of the excess actuarial assets to offset the costs associated with setting the contributions below normal costs for FY 2003-04. The total amount of surplus to be recognized to offset such costs is approximately \$900 million.

Comparing the contribution rates effective July 1, 2003, under current law to the rates established in this bill, employers participating in the Florida Retirement System will enjoy a reduction in retirement costs for FY 2003-04. The reductions by employer group are noted below:

State agencies	\$181.4 million
State Universities	35.1 million
Community Colleges	25.7 million
School boards	375.0 million
Counties	247.8 million
Other	<u>39.4 million</u>
TOTAL	\$904.5 million

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.